S. HRG. 98-1073

PUERTO RICO PASSENGER SHIPS

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 89

TO PERMIT THE TRANSPORTATION OF PASSENGERS BETWEEN PUERTO RICO AND OTHER UNITED STATES PORTS ON FOREIGN-FLAG VESSELS WHEN UNITED STATES FLAG SERVICE FOR SUCH TRANSPORTATION IS NOT AVAILABLE

AUGUST 3, 1984

Serial No. 98-102

Printed for the use of the
Committee on Commerce, Science, and Transportation

U.S. GOVERNMENT PRINTING OFFICE

39-240 O WASHINGTON : 1984

S261-69

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PUERTO RICO PASSENGER SHIPS

FRIDAY, AUGUST 3, 1984

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:30 p.m., in room SD-138, Dirksen Senate Office Building, Hon. Ted Stevens (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: David Dye, staff counsel, and John D. Hardy, minority staff counsel.

OPENING STATEMENT BY SENATOR STEVENS

Senator STEVENS. Today the Merchant Marine Subcommittee will hear testimony on H.R. 89, a bill to allow foreign-flag ships to transport passengers between Puerto Rico and United States ports until the Secretary of Transportation determines that passenger service is available on U.S.-flag vessels.

The Commonwealth of Puerto Rico, like my own State of Alaska, looks to the visitor industry as a highly desirable source of economic growth. In recent years, cruise ships have become an important subcomponent of that industry. These mobile, floating resort hotels provide a kind of service quite different from that offered by the long-gone trans-oceanic passenger liners which served essentially the same function as passenger trains on land.

Many of these old passenger liners were U.S.-flag, U.S.-built vessels which were fully qualified for the U.S. coastal trades. As the market for passenger ships withered with the growth of air transportation, most of these U.S.-flag vessels went the way of the buffalo and the $20 gold piece.

No large luxury passenger or cruise ship has been built in our country since the late 1950's. All of the 50 or so large cruise ships operating off our shores—with the exception of two ships serving the inter-Hawaiian Island trade—are foreign-built and foreign-crewed. These vessels are subject to the restrictions imposed by U.S. cabotage laws designed to protect domestic commerce from foreign competition.

The guardians of these laws tend to view exceptions for particular vessels or trade routes as dangerous precedents which may lead to erosion of the U.S. maritime industry. They therefore oppose legislation such as this on principle. They also point out that erosion of the cabotage laws could have potential adverse effects on domestic shipyard orders and on existing American vessels—all of which

could diminish the ability of the Nation to provide adequate sealift in time of war or national emergency.

While I believe that these concerns merit serious consideration, I think we should be careful about broad industry-wide generalizations. It may be good policy to preserve and protect existing U.S.-flag liner, bulk, and tanker shipping, along with their underlying industrial base. But what are we protecting in regard to U.S.-flag cruise ships other than a phantom industry and wishful thinking?

Is the prospect, no matter how slim, of the future emergence of a U.S.-flag cruise industry really worth foregoing the potential economic benefits to ports, business, and employment that the existing cruise fleet could bring to so many of our communities?

These questions are, of course, subject to varying points of view. All of our witnesses today are primarily concerned with the potential shoreside benefits of this legislation. For a variety of reasons and circumstances, all of the invited witnesses who were likely to oppose the bill have declined to testify. Most, if not all, of these groups will submit written comments, so I invite serious students of this issue to examine the printed record when it is available.

I have been informed that the administration supports the bill and will submit a letter for the record to that effect.

I have a statement that I have been asked to read by my good friend, the distinguished Senator from Hawaii, Mr. Inouye.

OPENING STATEMENT BY SENATOR INOUYE

H.R. 89 is intended to permit Puerto Rico to develop additional tourism and transportation resources which it is now unable to develop because of the restrictions of our cabotage laws. Those restrictions, of course, also inhibit development of tourism and transportation resources in my own State of Hawaii, as well as in my distinguished Chairman's State of Alaska, and in Guam and American Samoa.

The objectives of H.R. 89 and similar legislation are certainly worthwhile. It is therefore with great reluctance that I have consistently opposed these ad hoc exemptions to that body of laws generally referred to as the Jones Act.

If the Jones Act is outdated or no longer serves the national interest, it should be repealed or modified after thorough study and analysis of the consequences and alternatives. Once Congress opens the door to legislate an exception, simple equity makes it difficult for close that door.

H.R. 89 is, I believe, a case in point. If we legislate an exemption for Puerto Rico so that it may develop additional tourism and transportation resources, why should not Hawaii, Alaska, Guam, and American Samoa be given the same opportunity? And, if they are, what will happen to the Jones Act, and the national interest objectives it is intended to promote?

[The bill follows:]

II

98TH CONGRESS
2D SESSION

H. R. 89

IN THE SENATE OF THE UNITED STATES

MAY 17 (legislative day, MAY 14), 1984
Received; read the first time

MAY 21, 1984
Read the second time and placed on the calendar

MAY 22 (legislative day, MAY 21), 1984
Ordered referred to the Committee on Commerce, Science, and Transportation

AN ACT

To permit the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels when United States flag service for such transportation is not available.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) notwithstanding any other provision of law, passengers may be transported on passenger vessels not qualified to engage in the coastwise trade between ports in Puerto Rico and other ports in the United States, directly or by way of a foreign port, except as otherwise provided in this Act.

(b)(1) Upon a showing to the Secretary of Transportation, by the vessel owner or charterer, that service aboard a United States passenger vessel qualified to engage in the coastwise trade is being offered or advertised pursuant to a Certificate of Financial Responsibility for Indemnification of Passengers for Nonperformance of Transportation (46 App. U.S.C. 817e) from the Federal Maritime Commission for service in the coastwise trade between ports in Puerto Rico and other ports in the United States, the Secretary shall notify the owner or operator of each vessel transporting passengers under authority of this Act that he shall, within two hundred and seventy days after notification, terminate all such service. Coastwise privileges granted to an owner or operator under this Act shall expire on the two hundred and seventieth day following the Secretary's notification.

(2) Upon a showing to the Secretary, by the vessel owner or charterer, that service aboard a United States passenger vessel not qualified to engage in the coastwise trade is being offered or advertised pursuant to a Certificate of Financial Responsibility for Indemnification of Passengers for Nonperformance of Transportation (46 App. U.S.C. 817e) from the Federal Maritime Commission for service in the coastwise trade between ports in Puerto Rico and other ports in the United States, the Secretary shall notify the owner or operator of each foreign-flag vessel transporting passengers

under authority of this Act that he shall, within two hundred and seventy days after notification, terminate all such service. Coastwise privileges granted to an owner or operator under this Act shall expire on the two hundred and seventieth day following the Secretary's notification.

(c) If, at the expiration of the two-hundred-and-seventy-day period specified in subsections (b)(1) and (b)(2) of this Act, the vessel that has been offering or advertising service pursuant to a certificate described in either of those subsections has not entered the coastwise passenger trade between ports in Puerto Rico and other ports in the United States, then the termination of service required by either of those subsections shall not be required until ninety days following the entry into that trade by the United States vessel.

(d) Any coastwise privileges granted in this Act that expire under subsection (b)(1) or (b)(2) shall be reinstated upon a determination by the Secretary that the service on which the expiration of the privileges was based is no longer available.

(e) For the purposes of subsections (b)(1) and (b)(2), the Secretary, by regulation, shall define the term "passenger vessel" and shall consider as the basis for the definition the type and volume of service provided in the Caribbean passenger trades, as well as the volume of service required or being provided between ports in Puerto Rico and other ports in the United States.

Passed the House of Representatives May 15, 1984.

Attest: BENJAMIN J. GUTHRIE,

Clerk.

39-240 O-84--2

Senator STEVENS. Our first witness is the Honorable Baltasar Corrada, Resident Commissioner for Puerto Rico and sponsor of the bill before us.

Before you testify, I would state that we do have a letter here from the AFL–CIO Maritime Committee addressed to me which we will place in the record following the testimony today.

I am happy to have you here, my friend, and Governor Romero also. I apologize for the timing of this hearing. In this short period that we have here—3 weeks between recesses—this was the only time that we could find to get this testimony on the record, and I do believe that this matter will be determined on the basis of the record. We thank you for taking the trouble to come.

STATEMENT OF HON. BALTASAR CORRADA, RESIDENT COMMISSIONER FROM PUERTO RICO

Mr. CORRADA. Mr. Chairman, if it is all right with you, I am very pleased and honored to have the Governor of Puerto Rico next to me at these hearings, and as a courtesy and in deference to him, if you would allow, he could testify first and I will, of course, offer my testimony as well.

Senator STEVENS. I am delighted to see my old friend here again and I am happy to hear your testimony, Governor.

STATEMENT OF HON. CARLOS ROMERO BARCELO, GOVERNOR, COMMONWEALTH OF PUERTO RICO

Governor ROMERO. Thank you, Senator and chairman. I appreciate the opportunity to be here to address ourselves to this bill.

It is a pleasure to testify in support of H.R. 89, a bill to permit foreign-flag vessels to carry passengers on a one-way trip between ports in Puerto Rico and ports in any of the States and territories of the Union until U.S.-flag vessels become available for that purpose. This hearing is of particular importance because it is the first time that the Senate has had the opportunity to hear our arguments on behalf of this bill. I would like to thank you for your efforts in holding this hearing.

The House of Representatives passed H.R. 89 on May 15 by a margin of 390 to 25. H.R. 89 is essentially the same bill that the House unanimously approved in 1982. Unfortunately, the Congress adjourned before the Senate was able to consider the measure.

The U.S. coastwise trade laws prohibit the transportation of passengers on one-way voyages between Puerto Rico and mainland ports in foreign-flag vessels. For over two decades now there has been no one-way passenger service between Puerto Rico and the mainland, principally because no U.S.-flag vessel has been available for that purpose.

I would like to point out that my administration supports all efforts to strengthen the U.S. shipbuilding industry. I would certainly prefer to have domestic ships serving Puerto Rico with the accompanying jobs that they would also represent. However, we do not see the current situation changing in the near future, and we face an immediate problem which must be solved soon to allow us to compete for the tourist trade in the Caribbean without the handicap under which we now compete.

We understand the labor concerns. My administration has always been a strong supporter of our workers' rights. As a matter of fact, one of my first efforts as Governor and my request to the Resident Commissioner Baltasar Corrada when he entered Congress was to make sure that the extension of the minimum wage laws to Puerto Rico would continue until completed, as has now happened effective January 1984.

If we thought that H.R. 89 would jeopardize the jobs of any American citizens in Puerto Rico or on the mainland, we would not have proposed this legislation. However, since there has been no U.S. service for more than 20 years, we do not believe that H.R. 89 poses a threat to our American workers. On the contrary, it will help provide additional jobs to U.S. citizens in the tourist industry in Puerto Rico.

The lack of passenger vessel service has meant that Puerto Ricans who might travel to the mainland are forced to do so by air. With the possible exception of Hawaii and other U.S. islands in the Pacific, no other group of U.S. citizens has as narrow a choice of travel options. I did not mention Alaska because at least Alaska has the option of travel by bus or by automobile through Canada, and by rail. But at least Hawaii and the other U.S. islands in the Pacific do not have to face the tourist trade disadvantage that we face with the Caribbean cruise vessels and the other islands in the Caribbean.

In 1982 the House Subcommittee on Merchant Marine had the opportunity to hold a hearing in Puerto Rico, where it heard testimony from a number of witnesses who for medical or other reasons are unable to travel by air. To reach the mainland, these persons must first travel to some other island in the Caribbean and once there take passage on another vessel to the mainland. This circuitous route is obviously more costly, time consuming and aggravating than direct travel. In fact, it is so difficult that I suspect many are deterred from ever attempting it.

Tourism is a vital component of Puerto Rico's economy. In 1983, nearly 2 million tourists visited the island. While in Puerto Rico, these visitors spend over $690 million. Our economists estimate that these expenditures represent an additional 48,000 jobs to our economy.

Puerto Rico needs these jobs very badly. We were hit very hard by the National economic recession, and though there are strong signs of recovery Puerto Rico traditionally lags behind the rest of the Nation in recovering from a recession. Our economic problems were compounded by Federal budget cutbacks which necessitated significant reductions in public sector employment. As a matter of fact, 25,000 jobs were lost through the cutbacks in the CETA programs.

This year's tax legislation also further limited Federal funds to Puerto Rico. Our unemployment in June was 20 percent. While this figure is lower than the January 1983 high of 25 percent, it is still unacceptably high. Since both the public and the private sectors have been hard-hit, we must continue to seek changes in Federal law restricting Puerto Rico's ability to develop. H.R. 89 would aid that process.

Cruise ship visitors to the island exceeded 400,000 in fiscal year 1983 and spent more than $20 million in Puerto Rico. This was a substantial decline of approximately 23 percent from fiscal year 1981. However, preliminary figures for fiscal year 1984 show an increase of more than 6 percent in comparison to 1983.

Puerto Rico's cruise industry faces increased competition from other Caribbean islands and from Mexico. Passage of H.R. 89 would help make us more competitive and, more importantly, it would help keep revenues and jobs in the United States.

One of today's most popular forms of vacation travel provides for one-way transportation on a foreign passenger vessel between a mainland and a Caribbean port. This is followed by a stay in a resort hotel in the Caribbean port and a return to the mainland by air or vice versa. Because they prohibit one-way transportation between Puerto Rico and the mainland in foreign vessels, the coastwise laws deny our tourism industry the opportunity to offer this type of vacation plan.

The tourism industry of the Virgin Islands does not suffer from the same restriction. They are exempted from coverage by the coastwise trade laws. This means that one-way transportation in foreign vessels between the Virgin Islands and U.S. ports is permissible. It allows them to reap the tourism and other benefits from such travel. While we believe that the U.S. Virgin Islands should continue to have this exemption, we believe that it is only fair to give Puerto Rico the same treatment in reference to passenger vessels.

The only objection which has been lodged against this bill is that its enactment would be inconsistent with the purposes of the Jones Act. If this were true, I would oppose the bill. A review of the facts, however, establishes that enactment of H.R. 89 would not damage the shield that the Jones Act creates for our maritime industry.

This bill would only apply to passenger transportation and not to the transportation of cargo, which is the area protected by the Jones Act. In this regard, the subcommittee should be aware that the government of Puerto Rico owns the Puerto Rico Maritime Shipping Authority, known as Navieras, which provides cargo service between the island and the mainland. Accordingly, it would not be in our best interest to support a Jones Act cargo exemption, and we emphatically do not support such a measure.

I would like to stress the fact that H.R. 89 has safeguards in the event that U.S.-flag vessels become available for service between Puerto Rico and the mainland. First, it gives an advantage to the so-called reflagged vessels. As you know, these are vessels that must obtain special legislation to operate in the coastwise trade usually because they were built or considerably refurbished in foreign shipyards but must nonetheless fulfill the other requirements of U.S. coastwise laws.

One of these ships was the S.S. *Oceanic Constitution,* which under Private Law 97-13 was permitted to offer passenger cruise service among the Hawaiian Islands. If the Secretary of Transportation determines that service is available on such a ship, the foreign vessels must cease operations. In addition, if the Secretary determines that the service is available on a U.S. passenger vessel

qualified to engage in the coastwise trade, both the reflagged and the foreign vessels must also cease operations.

In fact, there are some who fear that H.R. 89 is so restrictive in this area that it might discourage all but the most daring of foreign-flag vessel operators to institute one-way service.

Finally, I would like to point out that in recent years various concessions have been granted to Caribbean nations as part of the Caribbean Basin Initiative. One of these is the extension of the convention tax credit business deduction. While this and other concessions may affect Puerto Rico's tourism industry, my administration has consistently supported the Caribbean Basin Initiative. I believe that when you help your neighbor, in the long run you are also helping yourself.

In summary, I submit that Puerto Rico has a very real need for one-way passenger vessel service to the United States mainland. Moreover, without enactment of H.R. 89 we have no reason to believe that such service will ever be instituted. However, if one-way foreign-flag vessel service to Puerto Rico is successful, it would serve as a strong incentive for U.S.-flag vessel service and the strengthening of our own maritime passenger fleet, with the corresponding new job opportunities.

Accordingly, I hope that you and the full Senate will enact this legislation this year.

I want to thank you once again for the opportunity to appear before you and present our case, and I want to also thank the Resident Commissioner, Baltasar Corrada, for allowing me to testify first. Thank you, Mr. Chairman.

Senator STEVENS. Thank you very much, Governor.

How much has your tourism suffered as a result of this recent recession?

Governor ROMERO. We have lost jobs through the recession. We reached a peak of unemployment at 25 percent; we are now down to 20 percent. In tourism specifically I do not have the figures here with me. Oh, I have it right here.

Three point eight percent of the total number of visitors to the island, from 2,007,824 in fiscal year 1982 to 1,930,000 in fiscal year 1983. In the cruise passenger visitors, in fiscal year 1982 compared to fiscal year 1983 it was a loss of 7.4 percent, about 30,000 passengers less from 1 year to the other.

However, there has been an increase in the last year. There has been about a 6-percent increase, so we have practically regained the number of tourists in passenger vessels that we have had.

The number of lost jobs due to the recession I cannot give you. I do not have the figures. Maybe Mr. Madera, who is testifying later on and has all the figures on the economic aspects would have that figure.

Senator STEVENS. You do not have any of these one-way vessel and return by air operations out of Puerto Rico at all, do you?

Governor ROMERO. No. At this point in time it is a crime to get off and stay in Puerto Rico from any vessel. Whoever comes in a vessel into our ports has to get back on that vessel, and the vessels have to leave at this point in time within 24 hours, so there is no opportunity for the tourism trade that is now being developed in

the Caribbean for people to either come in by air and return by cruise ship or come in on a cruise ship and return by air.

It gives us a wider option of choices for the tourism and for tour operators, which is trade that is at this time not accessible to us. And all around us all the other islands have it—the Virgin Islands, all of the islands in the Caribbean, and all the other countries in Central America and north of South America, where the cruise ships stop or visit.

Senator STEVENS. You are the only island in the area that is excluded?

Governor ROMERO. That is correct, yes, sir. And that is a very large, growing trade in the Caribbean.

Senator STEVENS. You make a very good case, Governor. We will do our best to help you.

Governor ROMERO. Thank you very much, Mr. Chairman.

Senator STEVENS. Thank you for appearing.

Mr. CORRADA. First of all, I deeply appreciate your efforts in scheduling these hearings promptly. We know that time is of the essence in order to be able to pass this bill in this session of Congress, and if we did not have this hearing in this 2-week hiatus between the Democratic and Republican conventions while we are in session, there would be little opportunity, of course, of your Committee reporting the bill out in time for the Senate to be able to act on it.

There is a clear recognition of the need for the legislation, which is supported by President Reagan's administration. There are two important reasons for this bill—first as an alternate mode of transportation for thousands of residents in Puerto Rico and the U.S. mainland who cannot or will not travel by air; second, as a way of providing an incentive to our tourism industry and for the economic development of the island of Puerto Rico.

The health of the tourism industry in Puerto Rico has suffered during the past years as a result of the ripple effect of the economic downturn we had as a result of the recession. Our tourism industry is in need of stimuli to recover its strength.

We had a loss of 3.8 percent in the total number of visitors to the Island, from 2,007,824 in fiscal year 1982 to 1,930,614 in fiscal year 1983. Of that figure, 444,148 were cruise passenger visitors in fiscal year 1982 compared with 411,150 in fiscal year 1983, a loss of 7.4 percent. Translated into dollars and cents, this drop represents a loss of $8.2 million in revenues from the previous year. The tourism industry is an important part of the economic picture of Puerto Rico and its development must be enhanced and strengthened. My bill would offer such an incentive.

H.R. 89 consists of provisions which outline the criteria under which foreign flag vessels may operate between Puerto Rico and the U.S. mainland. For over 30 years, there have been no passenger vessels providing this service to Puerto Rico.

This bill provides for the transportation of passengers between the U.S. mainland and Puerto Rico in foreign-flag vessels in the absence of U.S.-flag vessel service. In the event that U.S.-flag service becomes available, there is a three-tier system so that the U.S.-flag vessels not qualified to engage in the coastwise trade and the U.S.-

flag vessels qualified to engage in the coastwise trade would displace foreign-flag vessels in providing services.

The legislation provides that a period of 270 days shall be given to a foreign operator to terminate services if that happens. This language ensures the orderly termination of service while providing continuity to the passengers.

The director of the Puerto Rico Tourism Co. estimates that passage of this legislation will result in the creation of approximately 4,000 jobs and an additional $34 million in total tourist expenditures from the anticipated increase of 81,000 new tourists during the first year of operation after the bill is enacted.

The legislation will also help to stimulate the development of a cruise vacation passenger transportation industry that might in turn help spur the renewal of the U.S. flagship industry. I again want to restate the fact that my bill only addresses passenger transportation. In no way is this bill addressing the issue of cargo transportation. I am not asking for waivers or exemptions from the Jones act for cargo transportation.

Since the bill was considered by the House in the 97th Congress, Congress passed the Caribbean Basin Economic Recovery Act. As you know very well, Mr. Chairman, prior to signing of the CBI only certain persons attending business conventions in the United States, including Puerto Rico, and in Canada, Mexico, and Jamaica, were eligible for certain tax deductions. Now, with the passage of the CBI, they have this available, so Puerto Rico has been potentially adversely impacted by that provision in the CBI.

By passing this legislation, hopefully, Mr. Chairman, we would be able to restore some of the advantages lost by the passage of the CBI.

From 1977 to 1981 the number of conventions on the island tripled from 375 to 1,057 and they generated $27.7 million in 1977 and $47.1 million in 1983. While it is difficult at this time to fully assess what the future impact of that provision in the CBI will be on Puerto Rico, it is clear that we have lost a competitive advantage that we previously had. So in that sense Puerto Rico, among the offshore areas of the United States, faces a situation of a competitive disadvantage that was taken away by CBI.

And, of course, Hawaii did not have to face or is not facing that situation because these provisions do not affect the Pacific area, as it does the Caribbean.

One last point that I would like to bring to the attention of the subcommittee has to do with the 24-hour rule. The proposed change in the regulations, U.S. Customs regulations, that currently provide that passengers traveling in a foreign ship may not disembark in a U.S. port for a period longer than 24 hours was recently published in the Federal Register.

The proposed new rules would eliminate this restriction and allow vessels to remain in port for a longer period. The result would be that passengers would be able to remain in ports longer and thus allow them to expand their visit beyond the immediate area near the ports.

Mr. Chairman, I am aware of your interest, as well as that of the State of Alaska, on behalf of this change. I am hopeful that once all the comments are studied by the U.S. Customs Service the

amendment to the regulations will be adopted. Such a change would not be injurious to any domestic interests and, on the other hand, it is expected to be beneficial to the economies of all the domestic ports affected by the change.

In conclusion, Mr. Chairman, I appreciate this opportunity and I urge you to support the bill and report it out favorably.

Also, I would like at this time to offer the statement of the Chamber of Commerce of Puerto Rico submitted by its president, Mr. Cruz Irizarry, and ask that it be included in the record. They could not appear personally, but they sent this testimony to my office and asked if I would make sure that it is placed in the record.

Senator STEVENS. Thank you very much.

As I understand it, the 24-hour amendment will not obviate the necessity for this bill, though.

Mr. CORRADA. Definitely not, Mr. Chairman. What the 24-hour rule does, would do, is to, if it is lifted it would allow passengers to remain for longer than 24 hours, but they would have to board again the same vessel that brought them in, so that while the vessel is in port they could be out there. As soon as the vessel leaves, they have to embark in that same vessel.

In other words, this would allow them the option of flying back by air or staying for a longer period in Puerto Rico.

Senator STEVENS. That would just affect the period of time that a foreign vessel could be in your ports. It would not affect their ability to take passengers from a port in the United States to another port in the United States and Puerto Rico. It would not affect the Jones Act at all?

Mr. CORRADA. That is correct, Mr. Chairman. And that is why even though we are hopeful that the U.S. Customs will soon lift that restriction of 24 hours that by no means would make this bill unnecessary, but quite the contrary.

Senator STEVENS. We will try to see if we can get this bill out of this subcommittee and committee to the floor so that it might be acted upon before we finish this Congress. I do think that you gentlemen make a special case for Puerto Rico. Those of us from Hawaii and Alaska have problems, too; although the distinguished Senator from Hawaii has indicated that he cannot support the bill.

The question remains as to whether we ought to recognize the very unique problem that Puerto Rico has and see if we can get this bill passed, notwithstanding our desire to do something about some of the problems that affect our own States. But we will try to do that and we will be in touch with you.

I do thank you both for coming and wish you well.

Governor ROMERO. Thank you very much.

Mr. CORRADA. Thank you, Mr. Chairman.

Senator STEVENS. We now have Mr. Jose Madera, administrator of the Puerto Rico Economic Development Administration.

STATEMENT OF JOSE R. MADERA, ADMINISTRATOR, ECONOMIC DEVELOPMENT ADMINISTRATION, COMMONWEALTH OF PUERTO RICO

Mr. MADERA. Good afternoon, Mr. Chairman. My name is Jose Madera, administrator of Puerto Rico's Economic Development Administration.

I thank you for the opportunity to testify to this honorable commission. We have delivered a statement and we would appreciate if it be considered and made a part of the record.

Senator STEVENS. We will put your whole statement in the record and you may make the statement you wish to make this afternoon.

Mr. MADERA. We would just like to take the opportunity to make five or six basic points to shed some information that is very relevant to this issue. We would be naive in not accepting that part of the problems that the tourism sector has in Puerto Rico are primarily due to the fact that our dollar is very strong these days and many people are going to Europe. And that is a fact.

Second, with the devaluation of other currencies in other countries, they have been much less expensive to have visitors there. Hence, it becomes even more important that the areas within the U.S. flag find other alternate ways of improving their competitive stance. On this basis, this bill becomes extremely important.

Why? The Government of Puerto Rico has invested over $150 million in hotel properties. These properties are owned by FOMENTO, but they are run by the private sector. At the present time, many ships that visit the island would have many of their passengers stay in those hotels for two or three nights if they could stay there and not have to leave on the same ship.

If this bill is approved, ships can stay more than 24 hours, in spite of the rule, and that would enable local ship chandlers and stevedores to improve local business. And these are U.S. citizens, sir, that reside in Puerto Rico.

In addition to that more tour operators would be in a position to have visitors from California or New York or the Midwest come to Puerto Rico for 3 or 4 days, board a ship, tour the Caribbean, come back to Puerto Rico and stay at the beginning or the end. This would undoubtedly enhance the hotel industry in Puerto Rico in spite of its competitive disadvantage with other locations throughout the world.

In addition to that, it is very important to understand that Puerto Rico has three or four very basic thriving sectors. Manufacturing is a very important sector. It represents today 55 percent of the island's net income. That is a very substantial portion of an economy of $13 billion.

Now, there is 2,300 corporate citizens on the island, of which over 1,500 are U.S. mainland operations, employing over 150,000 individuals. Over 55 percent of the goods and raw materials that we produce in Puerto Rico come from the mainland. This generates over 150,000 jobs in the U.S. mainland by the purchasing of those goods.

Puerto Rico purchases over $5.2 billion in mainland goods and services. We are our Nation's ninth-largest customer in dollar terms in the world. For example, 80 percent of our food we bring

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from the U.S. mainland. All this is brought on U.S. bottoms. This would not be affected, and this is not part of the bill and would not be altered at all.

All we are trying to do is on the one hand help the tourism sector develop to a fuller degree, as the manufacturing sector has, but at the same time give Puerto Ricans as U.S. citizens the opportunity to travel to and from the mainland in other modes of transportation than just air.

I, as FOMENTO administrator, make over 30 trips outside the islands a year. I admit, sir, candidly I am very afraid of airplanes, but I have no choice but to utilize that mode of transportation.

We believe that if the Virgin Islands is excluded from the Jones Act—and this was a result of a decision of President Roosevelt when Hess Oil had an interest in establishing an oil company in the Virgin Islands, and then it just became permanent—that we admit that it is sort of an invidious form of discrimination to the people in Puerto Rico.

On that basis, sir, we support the bill. We think it is both an economic measure that would help Puerto Rico compete more effectively in tourism to partially offset disadvantages like the convention deduction that is now part of the law of the CBI. Puerto Rico has not benefited from any of the positive aspects of the Economic Recovery Act and has not fully yet received any benefits under the CBI legislation.

On that basis, sir, this would be an economic measure of help to Puerto Rico and at the same time give equality to your fellow citizens on the island. Thank you very much.

Senator STEVENS. Thank you for coming. I, too, would long for the restoration of some passenger service so that we did not have to make each trip to and from Alaska by air. I think you have a better chance to get that restored sooner than we do in Alaska.

We will consult with the Senator from Hawaii and see if we cannot find some way to meet your needs. I do thank you for taking the trouble to come up, once again.

Mr. MADERA. Thank you very much, sir.

[The statement follows:]

STATEMENT OF JOSE R. MADERA, ADMINISTRATOR, ECONOMIC DEVELOPMENT ADMINISTRATION, GOVERNMENT OF PUERTO RICO

Mr. Chairman, members of the subcommittee, my name is José Madera. I am the Administrator of the Puerto Rico Economic Development Administration, commonly referred to as FOMENTO. FOMENTO has been Puerto Rico's primary economic development agency since 1942. Our primary task has always been, and is, to promote improvement of Puerto Rico—to create job opportunities and income for our people, to channel net capital investment into development, to promote the orderly growth of the industrial and services sectors of the economy, and to assist firms to establish and sustain viable operations.

FOMENTO achieved its best year of the past eight in factory and employment promotion and set a new record in the fiscal year that ended June 30, 1984, with 230 new, additional or expanded plants and 14,322 contracted additional jobs.

I urge this Subcommittee to act favorably on H.R. 89 because its passage is significant to Puerto Rico's socioeconomic development, and to even closer links with the United States. A transportation system is obliged to be service and price competitive, and to guarantee our citizens, no matter where they live, the right to travel freely to and from the United States.

Puerto Rico is a major customer for United States products, importing $5.2 billion worth of United States-made goods and exporting to the United States $7.1 billion in fiscal 1983. Puerto Rico's trade volume reached an astounding $17 billion during

fiscal year 1983, four times the commercial activity of 1970 and 12 times that of 1960. According to a recent study, our purchases from the United States in fiscal year 1980 accounted for 151,289 jobs in the United States and generated $4.76 billion in income. We are the ninth largest customer for United States exports worldwide.

In the manufacturing sector that comprises 2,300 manufacturing plants, United States parent companies have some 1,500 operations in Puerto Rico accounting for 75 percent of all direct manufacturing employment. Since they are concentrated in a higher wage, high technology sector, these companies account for an even larger percentage of indirect jobs. According to the most recent count in June 1983, over 128 companies in Puerto Rico are subsidiaries of Fortune 500 manufacturing companies.

The Jones Act requires that all shipping between Puerto Rico and the United States mainland be done in United States flagships, and cost considerations now prevent any United States passenger or cruise ships from serving this route. The only way that a person can travel directly between Puerto Rico and the United States is by airplane. As an Island, we have no other alternative means of travel available to our citizens today. The unavailability of surface transportation for passengers between Puerto Rico and the United States mainland is both a hardship for many Puerto Ricans who cannot fly and an invidious form of discrimination since our fellow citizens in the United States Virgin Islands are exempt from the Jones Act provisions. In this connection, "higher cost" United States flag vessels must move raw materials and finished products between the United States mainland and Puerto Rico. We are heavily burdened with the extra cost. In the United States mainland there are alternatives to this extra cost-surface transportation, and no "higher cost flag obligation".

As a result of a comprehensive development policy laid down seven years ago in order to expand our markets, the government of Puerto Rico created a multifaceted development strategy designed to meet our social commitment to our working people, provide stability to our industrial community (and thereby to our economy as a whole), diversify further our manufacturing base and spur intermediation in our manufacturing sector.

Moreover, an essential first step was to broaden our local tax base to relieve the increasingly heavy burden on our middle classes as well as give our growing community of corporate citizens a direct opportunity to contribute to public services and expanded infrastructure. A simple, graphic illustration of our eroding tax base at that time required nothing more than to imagine an overturned pyramid, with our bulging economic structure and future resting on an ever-narrowing point at the bottom.

At the same time, we had to entirely revamp our industrial incentives to enable both established and future industries to maintain and expand their operations here on a long-term or permanent basis.

Finally, we had to provide opportunities for manufacturing industries and export-oriented service firms to expand into the growing and diverse markets of the Caribbean, Central America and the continent of South America.

During this period of sweeping structural changes, we clearly achieved significant results:

(1) better salaries and wages, greater social justice for our workers (including top fringe benefits, job stability, promotion and technological advances). Manufacturing payroll has doubled from $544 million in 1966 to $1.26 billion in 1984. This figure excludes an average of 28 percent in fringe benefits.

(2) intermediation, increased vertical and horizontal integration of our manufacturing sector, providing linkages among our plants and factories, and with the high-tech industries, developing into the second generation of "upstream development" or core (block-building) industries; which, in turn,

(3) create opportunities for local entrepreneurs.

Also, we have a more attractive "on demand" Puerto Rico Industrial Development Company (PRIDCO) factory building availability at competitive rates, cutting start-up time from one to two years, reducing investment requirements at a time when private investors face high interest and other cost pressures. Over $300 million have been invested by PRIDCO on new manufacturing facilities in the past seven years. We have added five million additional square feet and now lease over 23 million square feet of manufacturing buildings to the private sector. We have also invested over $150 million in six state-owned hotel properties that are operated by the private sector.

During this period, 1977, through 1984, FOMENTO-promoted employment in 1,466 industrial projects amounted to 87,356. The actual employment, up to date, from

these contractual commitments has been 58,572, almost 94 percent of the initial commitment on those plants that are already in operation.

During this same seven-year period, FOMENTO's efforts to target industrial enterprises that would establish here on a long-term basis, would continue expanding and would provide not only abundant, high-paying jobs (plus top fringe benefits and good working conditions), but also diversify and expand our technological capability, have all been extremely successful. Indeed, of total employment in all FOMENTO-promoted industries, some fifty percent of these jobs are in so-called high-tech industries.

Puerto Rico enjoys one of the fastest growth rates of computer and high technology electronics of any major industry location in the world. In computers alone, the number of plants making computers and related equipment increased from five in 1977 to 33 at present. In that brief period, the number of employees in the industry has grown from 3,077 to 7,151. And this number of employees can be expected to rise quickly in the near future because the typical computer investor begins with a small operation to test the industrial climate and then expands when he sees how well he can do in Puerto Rico. Next, exports of computer products from Puerto Rico to the United States from $26.8 to $110.36 million in fiscal year 1980, a two-year increase of 265 percent! And altogether there are over 296 plants in the computer, non-computer, electrical, electronics, and instruments industries, employing some 38,529 men and women.

Our computer companies are among the most advanced in the world; and they are rapidly expanding their sophisticated, as well as, their basic operations here. Eight of the 33 United States firms with plants making computer products in Puerto Rico are Fortune 500 companies, such as Digital Equipment, Honeywell, Wang Laboratories, Hewlett-Packard, Westinghouse and so forth. These and other companies are manufacturing a wide range of sophisticated products in Puerto Rico, such as high density recording units, Digital circuit modules, memory systems, mini computers, printed circuit boards and a host of others.

However, although we in Puerto Rico today are immersed in a technological revolution, let us not forget that our traditional industries, such as apparel, continue to be major pillars of strength in our manufacturing community.

Additionally, Puerto Rico is prepared to play an essential role in Caribbean economic development. Puerto Rico has much to offer—especially in respect to the smaller, less-developed economies of the region—when you consider our comparable socio-economic size, similar problems and our unparalleled experience of more than three decades of rapid economic growth. Moreover, we have much to gain from increased trade and expanded markets for our wide range of manufactured products, goods and services. Above all, Puerto Rico has clearly demonstrated effective cooperation between the government sector and the private sector.

But Puerto Rico's experience cannot be traced in detail, naturally. Yet many specifics of our diverse development experience can be transmitted and adapted. And given our Caribbean demographics, recent development experience and bilingual capability, Puerto Rico can make available its myriad experts in a host of areas such as low-cost housing, agricultural credit systems, technical education and training, cooperatives, energy conservation and, of course, industrial development, such as modern promotional techniques and creation of industrial park buildings and infrastructure. We can also arrange with many of our neighbors a "twin-plant" system of co-production of goods and products, with our contribution at the advanced skills level.

The government of Puerto Rico has not hung back waiting for encouragement from Washington to take important steps on its own initiative, toward implementation of a Caribbean cooperative development program. In fact, we are setting an example for interregional cooperation. After some preliminary talks, the first major step was taken on October 30, 1981, when Jamaica's Prime Minister Edward Seaga met with Governor Romero in Puerto Rico. On that occasion, an agreement was reached to begin mutually beneficial economic, educational and cultural cooperation. Later, there were follow-up exploratory missions to Kingston, in which United States Embassy officials participated, to identify areas of immediate need. And, over a year ago, an 18-member Puerto Rican mission, headed by Secretary of State Carlos S. Quiros, met in Jamaica with the Prime Minister and his comparable contingent of experts to create working level committees, action agendas, work plans, etc. Our "Jamaica Initiative", in other words, is already being implemented.

With respect to the tourism sector, FOMENTO has invested $50 million in the past seven years in improvements to its hotel properties.

In spite of all our contributions to an improved socio-economic posture in Puerto Rico, we are faced with new challenges. Like our fellow citizens on the United States mainland, we are being affected adversely by the high interest rates prevail-

ing in the credit markets. The Island, which historically has had high unemployment and a per capita income far below even the lowest United States' state, now has an unemployment rate of 20.1 percent. And in certain areas, notably in southern Puerto Rico, the figure is much higher, in the 30 percent range.

Because we have been lagging behind the United States' states, socio-economically, we were particularly affected by United States social program cutbacks and deficit reduction, by sharp federal budget cuts in Comprehensive Employment and Training Act programs, and by cuts in the federal food stamp program.

Moreover, the positive aspects of the President's economic recovery plan, have yet to apply to Puerto Rico, although the application of some of its measures are being implemented by Congress through the Caribbean Basin Initiative Plan signed by the President. In addition, the CBI extended the business convention deduction to eligible countries. While I am in support of the objectives of the CBI, the business convention deduction may have negative impact on the tourism industry in Puerto Rico.

H.R. 89 is extremely important to Puerto Rico. The removal of an artificial constraint to tourism and to the associated commercial and service sectors would contribute to our economy. Because of our continuing high unemployment rate and low per capita level, we are obliged to aggressively pursue every appropriate contributor to our socio-economic development—and H.R. 89 would certainly allow us to do just that. H.R. 89 would permit Puerto Rico a very real opportunity to attract more visitors and to compete more effectively in the Caribbean cruise ship market. As a result, the total number of cruise ship visitors, 444,148 in fiscal year 1982 and 411,150 in fiscal year 1983, would be expected to increase dramatically. If ships could stay in Puerto Rico's docks for a longer period of time, this would result in an increase in ship chandler business on the Island. In addition, shipping line and hotel operators will be able to offer a wider variety of packages to the visitors, which would enhance tourist business in the hotels and increase occupancy rates.

Cruise ship passengers originating at a port other than in Puerto Rico, and calling at San Juan, stay in Puerto Rico for only 24 hours or less. A proposed rule, published in the Federal Register on April 25, 1984, would eliminate this restriction and would allow vessels to remain in port for a longer period. I am hopeful that the United States Customs Service will recommend the change in the regulation favorably. With the enactment of H.R. 89, the existing cruise ship passenger will not be limited to an overnight stay. Potentially, this is an important economic plus.

H.R. 89 would also contribute to more United States job opportunities in maritime-related industries—repair, maintenance, service and supplies. At the present time, there are no United States cruise ships serving Puerto Rico, and as far as we know, there are no United States lines interested in doing so. H.R. 89 would allow foreign vessels to serve a non-existent United States market. Indeed, H.R. 89 could be particularly beneficial to United States shipping interests. It places the risk of developing the United States mainland Puerto Rico maritime transportation market on the foreign lines, giving the United States flag shipping interests a cost advantage—the choice of entering a market after it has been developed and has achieved viability.

Finally, I would like to point out that although my testimony has focused on the economic development of Puerto Rico and the importance of H.R. 89 in that context, I am primarily concerned, as my Puerto Rican colleagues are, about the legitimate right that the bill will return to the United States citizens by permitting an alternative to the mode of travel between the United States mainland and Puerto Rico. And for those United States citizens who are unable to fly, the bill will be particularly beneficial.

I urge prompt affirmative action on H.R. 89 by this Subcommittee and by Congress. Thank you for the opportunity to appear before you today.

Senator STEVENS. Mr. de Lemos, the Executive Director of the Greater San Juan Committee.

STATEMENT OF MANUEL DE LEMOS, EXECUTIVE DIRECTOR, GREATER SAN JUAN COMMITTEE, INC.

Mr. DE LEMOS. Mr. Chairman, I represent the Greater San Juan Committee. The committee represents the 75 top national and multinational corporations in Puerto Rico. A list of these is included as part of the statement and you already have received individual letters of support for H.R. 89 from our members.

The purpose of the Greater San Juan Committee is to act as a catalyst for action, both in public and in private, in the capital city of San Juan. Our goal is to convert successful chief executive officers into concerned civic leaders who will help tackle urban and economic problems together with the public sector.

Our immediate concern has been the revitalization of Old San Juan, including the waterfront area, and the new center of San Juan, the most active business and real estate area of the city. This last project was recently awarded a National Award of Distinction by Secretary Samuel Pierce of the Department of Housing and Urban Development as one of the best public and private enterprise partnerships in the Nation.

Our work with the merchants and residents of Old San Juan has revealed to us the importance and economic potential of cruise ship visitors to the old city and to other parts of our island. Our group strongly supports H.R. 89, an amendment to the Jones Act introduced by our Resident Commissioner, Baltasar Corrada. We support it for several reasons.

One, it makes good business sense for our tourism industry, as Mr. Madera has explained, opening up new opportunities for the development of shorter, specialized cruises which could explore our offshore islands, such as Mona Island, a nature preserve almost comparable to the Galapagos Islands.

Two, it is not detrimental to labor, since cargo vessels are not affected by H.R. 89.

Three, it is not detrimental to the defense interests of our Nation. The proposed amendment is flexible in giving the authority to the Secretary of Transportation to terminate the service permitted by this act under certain circumstances. According to the U.S. Navy League in a limited conflict such as the Falklands war cargo vessels are the key civilian element needed.

The British cruise ships were used with extreme caution for troop transportation because of their inherent vulnerability. In addition, because of the element of time involved in a limited war today one of the vessels was converted to war duty in a U.S. port, namely San Juan, not in England.

Finally, the Greater San Juan Committee firmly stands behind the principle of freedom of choice. I ask you, should a resident of Alaska not be able to travel to Oregon because he owns a foreign-made car? Let me point out that the U.S. auto industry has played an important role in the defense of our country in the past and is expected to do so again in the future. Yet that industry has dealt successfully with foreign competition and today is on the brink of a new revolution in design.

By approval of H.R. 89 we gain two things. We get an increase in tourism and economic growth for Puerto Rico, and at the same time U.S. citizens who cannot or prefer not to fly are able to travel to the continent. For the above reasons, we urge the prompt enactment of H.R. 89.

Thank you.

Senator STEVENS. Thank you very much. Again, good reasons and we appreciate your taking the time to come up and testify.

Our last witness is Carlos Diago, deputy director of the Puerto Rico Tourism Co. in San Juan.

STATEMENT OF CARLOS DIAGO, DEPUTY DIRECTOR, PUERTO RICO TOURISM CO.

Mr. DIAGO. Mr. Chairman, my name is Carlos Diago. I am deputy director of the Puerto Rico Tourism Co. and I am representing our executive director, Frances Rios de Moran.

It is a pleasure for me to testify in support of H.R. 89, a bill to permit coastwise qualified vessels to transport passengers one way between Puerto Rico and U.S. mainland ports. I will be submitting the 10-page presentation for the record and I will just mention some of the highlights that might be of interest to the committee in the sense that the Puerto Rico Tourism Co. is a corporation of the government of Puerto Rico that has the responsibility for the development of the island's tourism industry through planning, promotion, training, the provision of transportation and other tourism services.

Tourism has a budget in the last fiscal year 1984 of $16 million, devoted to considerable efforts to carrying out these responsibilities. Among other agencies of the government supporting this effort, the infrastructure of the airport facilities and the tourism piers have received an investment of more than $30 million, making them the best in the Caribbean region.

Also, we have invested $27 million in improving the government-owned hotels and an ample retraining program for the hotel workers, taxicab drivers, and other segments of the tourism industry is underway because we see tourism as one of the major sources of jobs in our economy. Actually, it generates 48,000 jobs in the economy of Puerto Rico right now.

The legal restrictions in 46 U.S.C. section 286 prevent us from developing the cruise ship market to its full potential. The proposed bill, H.R. 89, will allow visitors who wish to travel from the mainland to Puerto Rico by cruise ship and return by air. Also, it would allow passengers who wish to travel by sea to Puerto Rico and return to the U.S. mainland on board a cruise ship.

We estimate that the proposed amendment would generate 80,000 additional cruise ship passengers, expending $34 million in our economy, which would create 4,000 new jobs. Today a new company that is starting a cruise ship service from Puerto Rico to the Virgin Islands contacted us, The Island Cruises, expressing that they would be willing if this bill is approved to start direct service with their largest ship between Miami and Puerto Rico.

Besides the other sources of business of the existing cruises, that would increase their capacity with the number of people that would be able to take shorter and less costly trips by going by cruise ship to Puerto Rico and returning by air or vice versa.

Also, there would be a number of people that are precluded for reasons of health or otherwise of traveling from the mainland to Puerto Rico since the days of more than 20 years ago, when there was such service between the mainland and Puerto Rico, and this would be helping also the economy of Puerto Rico and the U.S. citizens in Puerto Rico.

The carriers, the U.S. carriers also, by combining the cruise ship arrival with a departure by air would be receiving an increase in their load factors, and we must remember that even the largest of our carriers, Eastern, that increased in the last 6 months, 10 per-

cent their number of passengers to the island are still suffering from economic losses in their operations.

And the balance of payments of the United States definitely would be helped because of the expenditures that would otherwise go to other foreign islands in the Caribbean. So, all, in all we would like to express our support to the proposed bill because we feel it would help us tremendously with our tourism industry.

Actually the last 2 years in which we had decrease in the number of cruise ship passengers prior to the present fiscal year, shorter cruises developed leaving the Miami gateway for 3 or 4 days, that if we would have available the flexibility that this bill would allow us we would not have lost those passengers that were coming into Puerto Rico for a 7-day cruise.

[The statement follows:]

STATEMENT OF CARLOS DIAGO, DEPUTY DIRECTOR, PUERTO RICO TOURISM CO.

Mr Chairman and members of the Subcommittee, I am Carlos Diago, Deputy Director of the Puerto Rico Tourism Co., known as TURISMO, and I am representing our Executive Director, Frances Rios de Moran. It is a pleasure for me to testify in support of H.R. 89, a bill to permit non-coastwise-qualified vessels to transport passengers one-way between Puerto Rico and United States mainland ports.

TURISMO is a public corporation of the Government of Puerto Rico. It has official responsibility for the overall development of the island's tourism industry, through planning, promotion, training, and the provision of transportation and other tourist services. TURISMO, with a budget of more than $16 million in fiscal year 1984, devotes considerable efforts to carrying out its responsibilities.

We are currently involve in a complete effort to improve the industry, including a $30 million investment in new pier and airport facilities, and the remodeling of most of our hotels, which represents an additional investment of $27 million. We are in the process of retraining our work force, from hotel workers to taxi drivers, in a vocational hotel school established last year. This year we are retraining 1,500 persons, and expect to retrain 8,000 over the next 4 years.

In the last 2 years we have more than doubled our tourism advertising budget from $3 to $7 million as part of an expanded marketing effort.

The Caribbean Basin Initiative has been enacted since our last testimony in support of H.R. 89. Although the Government of Puerto Rico supports the CBI, it can nevertheless have negative impact on our tourism. It contains a provision allowing tax deductions for business expenditures for conventions in Caribbean countries who have signed a tax treaty with the United States.

The number of conventions in Puerto Rico has increased from 375 with 68,000 attendees in 1977, to 1,057 with 77,244 attendees in 1983. These visitors spent approximately $27.7 million in 1977 and $47.1 million in 1983. Puerto Rico normally attracts small conventions. We have a maximum capacity of 5,000 persons per convention, similar size to that of our Caribbean neighbors. Thus, with the new CBI provision, we will be competing for the same small- and medium-sized conventions.

The tourism industry has been a major force behind Puerto Rico's economic development, and contributed significantly to the economy. For instance, in fiscal year 1983, tourist expenditures amounted to $691 million and constituted 5.4 percent of Puerto Rico's gross domestic product. Tourism is extremely important in terms of employment because it is labor-intensive. The $691 million spent by visitors in 1983 created nearly 48,000 jobs.

Puerto Rico is the Caribbean's No. 1 tourism destination. Largely due to our success in attracting additional air service in recent years, and in expanding and improving our tourist facilities, we have been able to draw an increasing number of visitors. In fiscal year 1983 Puerto Rico attracted 1.9 million tourists. A total of 1.5 million visitors came by air. Of that number, 1.1 million came from points within the United States. The visitors arriving by air spent $670 million in 1983.

I believe that H.R. 89 will allow Puerto Rico to fill a major void in its cruise ship visitor market. You have heard me say that we are able to attract cruise ship visitors who come to San Juan and leave shortly thereafter by the same vessel, and visitors who take San Juan-originating and returning cruises. You have not heard me speak of visitors who wish to travel from the mainland to Puerto Rico by cruise ship, and return by air. I have not mentioned such visitors because, at the present time, they are legally precluded from making such trips.

The legal restriction in 46 U.S.C. section 286, prevents us from developing the cruise ship market to its full potential. At roughly 440,000 visitors annually, that market is of a respectable size, but not nearly as large as it could be. Actually, we lost volume in the last year due to our competitive disadvantage.

You are aware, of course, that no U.S.-flag cruise ships serve San Juan or indeed any points in the Caribbean. San Juan receives service only from foreign vessels. And because of the current law, foreign vessels are prohibited from carrying passengers between the U.S. mainland and Puerto Rico on a one-way basis. Removal of that prohibition will allow Puerto Rico to go after the one-way cruise ship visitor market.

I would like to describe in more detail the nature of the market that Puerto Rico can attract with passage of H.R. 89. First, we believe that there is a substantial number of individuals who would like to take a cruise to San Juan from a mainland port, and would then like to spend some time visiting the island before returning home.

Second, there should be some individuals who are interested in taking a cruise but, because of time or cost constraints, are not able to go in both directions. For them, the opportunity to first take an abbreviated cruise on a one-way basis and to then fly home would be attractive.

Some of the above individuals would be drawn from the ranks of cruise ship passengers who already visit Puerto Rico. To the extent that those individuals extend their stay beyond the 24 hours or less that they now are spending in Puerto Rico, tourism and the Puerto Rican economy will benefit.

But perhaps even more significantly, we expect to be able to induce a substantial number of new passengers to visit Puerto Rico for the first time, with the innovative transportation offering that we contemplate. These visitors may come on cruise ships that already call at San Juan, and in even greater numbers, on the new ships that we expect to attract to take advantage of the one-way cruise ship visitor market.

We have given this matter considerable thought, and are convinced that we have an opportunity to increase Puerto Rico's tourist base, and tourism revenues substantially. One-way cruise ship offerings are not uncommon. Perhaps even more significantly, the Royal Caribbean line, of Norwegian registry, it is now extensively promoting several one-way cruise ship packages in the Caribbean. Under Royal Caribbean's programs, the passenger boards the vessel in Miami, visits various Caribbean locations such as Jamaica and Curacao, and flies back to the U.S. mainland from Barbados. The passenger can also fly from the United States to Barbados, board a ship there, and cruise to Miami via various Caribbean destinations such as St. Thomas and the Dominican Republic.

It should be noted that the U.S. Virgin Islands are exempted from these restrictions. Puerto Rico should have and wants the ability to compete with these foreign and U.S. Caribbean Islands for the one-way cruise ship market.

At the present time, the great majority of cruise ship offering in the Caribbean consist of a departure from a major gateway, a tour of various island ports, and a return to the gateway where all passengers debark and the next group is taken on to repeat the cycle. If a passenger wishes to spend more than part of a day in any given port—for instance, if he wishes to debark and catch a later sailing, or debark and return home by air—he makes special arrangements for this, pays a slight premium to the cruise line, and accepts a booking on the basis of final confirmation only, near to actual departure time.

This type of arrangement is usually made available by the lines only on a space-available basis. Such an arrangement, of course, is not possible at all in the case of Puerto Rico, due to the section 286 restriction.

The obvious option is to develop and aggressively market services on a one-way basis—fly one way and cruise the other—along the general lines of the Royal Caribbean offerings. Two essential ingredients are needed to make such a service viable on a large scale. These are ingredients tht Puerto Rico has, and many other Caribbean locations lack: A high quality air service infrastructure which ties both a Caribbean port and a U.S. mainland port with a wide range of city markets, served by frequent and direct air services; and a local tourism infrastructure at the Caribbean point capable of providing varied attractions for meaningful multiday visits, and with sufficient total and surge capacity year-round to provide the necessary amenities.

Puerto Rico is uniquely qualified as Caribbean point for this type of service offering. Both of the necessary conditions are fulfilled. Air service to Puerto Rico from U.S. city markets is clearly superior to the service to any other Caribbean point. As to tourist amenities, Puerto Rico's existing infrastructure is generally considered unequalled in the region.

Moreover, the one-way cruises that Puerto Rico contemplates should be particularly attractive to the most price-sensitive component of the tourist market. Air fares from Puerto Rico to the major mainland point of New York can be as low as $99 on some flights. These low air fares could be combined with the low rates for some Puerto Rican accommodations, such as the "paradores puertorriquenos".

Because of the nature of the contemplated service, which would be new to Puerto Rico, it is difficult to estimate the possible tourism volume impact. Based on contacts with representatives of the cruise industry, we feel confident that the impact will be substantial, particularly as the service matures.

Currently, Puerto Rico attracts roughly 162,000 annual cruise ship visitors who originate and terminate their voyages in San Juan. We project, at a minimum, that the number of new visitors attracted to Puerto Rico by the one-way cruise ship service will amount to 50 percent of that figure. Thus, we believe that it is not unreasonable to expect an additional 81,000 visitors in the first year of operations.

These additional visitors, many of whom would spend time enjoying Puerto Rico, would be a tremendous boon to our economy. Since each mainland visitor spends an average of $422 in Puerto Rico, the new visitors would add approximately $34 million to the island's tourist revenues. In addition, this translates into a $59 million boost to the economy's total output, and into the creation of approximately 4,000 new jobs. All of this, of course, does not include the positive economic impact to be expected as a result of current cruise ship passengers who decide to extend their stay in Puerto Rico once they are able to take a plane back to the mainland.

Puerto Rico will not be the only one that will benefit from enactment of H.R. 89; U.S. air carriers will also benefit since they will be having additional one-way passenger traffic between San Juan and the U.S. mainland.

We are all concerned that a result of airlines deregulation has been the reduction of routes flown. Recently, Pan American completely shut down its operations in Puerto Rico. In addition, Eastern Airlines, the largest carrier serving the island, is still facing financial difficulties in spite of an increase of 10 percent in the number of passengers to Puerto Rico during the last 6 months. While enactment of H.R. 89 will not solve all the problems the airlines are confronting, it would help preserve and possibly enhance their service to Puerto Rico. Moreover, the U.S. balance of payments will be enhanced to the extent that mainland residents are attracted to Puerto Rico rather than to foreign Caribbean islands.

There is no prospect of U.S.-flag service to Puerto Rico in the near future. We would like to be able to promote Puerto Rico in the same way that foreign cruise ship services promote vacations to the U.S. Virgin Islands. We expect to be able to attract new cruise ship lines.

Of course, we need not rely on new companies alone to reap the benefits of H.R. 89. The many foreign-flag cruise ships that now sail between the mainland and Puerto Rico, and those that originate cruises to the Caribbean from San Juan, would also be in a position to quickly take advantage of H.R. 89. We would immediately begin working with these companies to market one-way cruises that would be an immediate benefit for our tourism industry.

As a final note, I would like to reemphasize one aspect of the Governor's testimony. H.R. 89 should be enacted not only to remove an unnecessary legal impediment to our ability to attract tourists, but also to facilitate the Puerto Rico-mainland travel of persons who are unable to travel by plane. For many of these people, we are not talking about the luxury of taking a cruise, but about the essential question of whether they will be able to travel at all. Just as I am concerned about tourism, I am also concerned about ensuring that all U.S. citizens have a viable means to travel to and from Puerto Rico.

Thank you very much.

Senator STEVENS. Thank you very much. We appreciate your testimony. That finishes the number of witnesses who requested to testify today.

We will keep the record open until Monday evening. It would be my hope that we could put this bill to consideration by the full committee as soon as possible and want to close the record as quickly as we can. So, any statements or letters received before Monday night at the close of business will be included in the record.

I thank everyone for their consideration. Thank you.

[Whereupon, at 3:12 p.m., the subcommittee adjourned, to reconvene upon the call of the Chair.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

U.S. DEPARTMENT OF TRANSPORTATION,
Washington, DC, August 1, 1984.

Hon. BOB PACKWOOD,
Chairman, Committee on Commerce, Science, and Transportation, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: This is in response to your request for the Department of Transportation's views on H.R. 89, an Act—

"To permit the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels when United States-flag service for such transportation is not available."

The Commonwealth of Puerto Rico comes within the cabotage laws of the United States. These laws require that the ocean transportation of merchandise and passengers between Puerto Rico and the United States be in U.S.-flag vessels. The Act of June 19, 1886, as amended (46 App. U.S.C. 289), restricts the ocean transportation of passengers in such trade to U.S.-flag vessels. However, not all U.S.-flag vessels are eligible to provide such coastwise service. For example, a U.S.-flag vessel that was constructed abroad could be operated in the foreign commerce of the United States but not in our coastwise trade between Puerto Rico and the United States.

H.R. 89 would provide an exception to existing law for the ocean transportation of passengers between ports in Puerto Rico and other ports in the United States. Subject to the terms and conditions set forth in the bill, (a) in the absence of qualified U.S.-flag service, H.R. 89 would authorize the operating of U.S.-flag vessels not qualified to operate in the coastwise trades, and (b) in the absence of any U.S.-flag service, H.R. 89 would authorize the operation of foreign-flag vessels. H.R. 89 is very similar to H.R. 1489—97th Congress, as it passed the House of Representatives on August 17, 1982.

The purpose of H.R. 89 is twofold. First, it would permit nonqualified U.S.-flag and foreign-flag vessels to transport passengers in the U.S. coastwise trade between ports in Puerto Rico and the U.S. mainland, an activity currently prohibited under existing law. Second, the bill would continue to protect qualified U.S.-flag vessels from such competition in the event such a qualified vessel should choose to enter the U.S.-Puerto Rico cruise ship trade. The effect of the bill would be to permit Puerto Rico to develop tourism and transportation initiatives relating to cruise ship travel.

In the course of developing the Caribbean Basin Initiative, the Executive Office of the President and the Department of Transportation promised the Governor of Puerto Rico that the Administration would attempt to reduce restrictions on the carriage of passengers between U.S. mainland ports and Puerto Rico by foreign-flag vessels as long as no U.S.-flag vessels were providing the service. In the case of the U.S.-Puerto Rico trade, no U.S.-flag vessels have provided passenger service for many years. Thus, options for developing this trade, as well as the ability of persons in Puerto Rico to take advantage of the services currently provided by foreign-flag vessels stopping over in Puerto Rico, have been severely restricted. In the continued absence of participation by U.S.-flag vessels in this trade, H.R. 89 would permit Puerto Rican tourism and transportation interests to develop this transport option more fully.

The Department believes that the approach set out in H.R. 89 strikes a reasonable balance between the interests of Puerto Rico and the U.S. maritime industry and does not compromise the Administration's commitment to support the substantive provisions embodied in the Jones Act.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, there is no objection to the submission of this report for the consideration of the Committee.

Sincerely,

JIM J. MARQUEL,
General Counsel.

AFL–CIO MARITIME COMMITTEE,
Washington, DC, August 2, 1984.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, Senate Committee on Commerce, Science, and Transportation, Washington, DC.

DEAR SENATOR STEVENS: We ask that the following be made a part of the record of your hearings on H.R. 89 which would permit foreign-flag vessels in the Jones Act trade between the U.S. mainland and Puerto Rico:

We continue to oppose any waivers irregardless of how limited or restricted which would permit foreign-flag ships to enagage in our domestic trades. We find very little comfort in the words of those who continually say they support the Jones Act but at the same time push legislation such as this that will, without question, eventually eliminate the Jones Act.

There are at present 80 foreign-flag passenger ships doing business from the United States as compared to two U.S.-flag. Fifty of these are practically home ported in the States. The two U.S.-flag passenger ships currently operating can only do so because of the Jones Act protections.

It would appear to us that these foreign-flag operations do not need additional help but it is the American-flag operations that need the help.

Again, we ask that before a waiver such as this is granted that hearings be held on the entire issue with the hope of finding solutions to restore American-flag passenger fleet operations.

Respectfully,

TALMAGE E. SIMPKINS,
Executive Director.

INTERNATIONAL ORGANIZATION OF MASTERS, MATES & PILOTS,
Linthicum Heights, MD, August 3, 1984.

Hon. TED STEVENS,
Chairman, Subcommittee on Merchant Marine, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The International Organization of Masters, Mates & Pilots, ILA, AFL–CIO, opposes HR 89, a bill to permit the transportation of passengers between Puerto Rico and other United States ports on foreign vessels.

We have consistently opposed waivers of our coastwise shipping requirements absent an overriding national defense consideration. In this case, there is no pressing national security justification for allowing foreign-built and foreign-flag vessels to operate between Puerto Rico and American ports. In fact, we believe the unrestricted entry of foreign passenger vessels into the domestic trade will ultimately destroy any chance that such vessels would be built in this country. That would adversely affect the ability of American shipyards and American vessels to meet national defense needs.

Only two weeks ago, delegates to our 70th Convention resolved to support the strict enforcement of our cabotage laws and to oppose any and all efforts to weaken or waive these laws. This resolution stated that "No waiver should be granted under any circumstances unless it is clear that the waiver is absolutely necessary to the national defense and does not constitute a threat to the basic concept underlying the Jones Act. The approval of waivers on economic rather than defense grounds will ultimately lead to the total circumvention of the statute."

Despite the fact that the sponsors of HR 89 have included in its text language that would give a preference to American-built and American-flag passenger cruise vessel operations, the language is insufficient and does not negate the harmful effect of abandoning a long-held principle. Such abandonment would extend a significant economic benefit to foreign vessels and yet would demand no comparable benefit in return for the United States and the American maritime industry.

Significant progress has been made on efforts to develop an American built and rebuilt passenger cruise vessel fleet. Recent tax changes have rekindled strong interest in this segment of the maritime industry. We believe that given time, the needs of Puerto Rico will be served by American vessels.

If, however, the Congress determines that existing incentives are inadequate to stimulate the desired growth of domestic passenger service, we believe it is encumbent upon the Congress to search for and enact additional incentives rather than pursuing vessel by vessel, or jurisdiction by jurisdiction, waivers of the law.

We urge that HR 89 be rejected and request that this statement be included in the Subcommittees hearing record on HR 89.

Sincerely,

ROBERT J. LOWEN,
President.

PENA, APONTE & ORTIZ-DALIOT,
ATTORNEYS AT LAW,
Washington, DC, August 13, 1984.

Hon. TED STEVENS,
Chairman, Merchant Marine Subcommittee,
U.S. Senate, Washington, DC.

DEAR SENATOR STEVENS: We address you on behalf of the Honorable Benjamin Cole, President of the Puerto Rican Mayors Association, an organization which houses 50 of the 78 mayors of the Commonwealth of Puerto Rico. The purpose of this letter is to provide the Committee with the views of the Association regarding H.R. 89, a bill to permit the transportation of passengers between Puerto Rico and other U.S. ports on foreign-flag vessels when U.S.-flag service for such transportation is not available.

Before proceeding to elaborate our position on H.R. 89, we want to express our gratitude for inviting us to testify before your committee during the hearings held last week. Unfortunately, Mr. Cole was hospitalized due to blood circulation problems in his right leg. Although we would have preferred to convey our thoughts personally, we certainly appreciate your invitation and, in response, submit this letter for the record.

H.R. 89, if signed into law, would allow the transportation of passengers between Puerto Rico and other parts of the United States on foreign-flag vessels when such service is not provided by U.S.-flag vessels. Passenger service between Puerto Rico and the United States in U.S. ships has been nonexistent for, at least, the last 32 years. The lack of such a service has left flying as the only available means of transportation. This situation is especially cruel on those citizens who, for medical or emotional (phobic) reasons, cannot fly and are, thus, left without a means of transportation to exercise their constitutional rights to travel freely within the United States.

We share Governor Carlos Romero's as well as Mr. Baltasar Corrada's belief that the approval of this bill would significantly boost our tourism industry by increasing local revenues and employment opportunities. The economic activity that will result from the approval of the bill is welcomed and greatly needed at the present time in Puerto Rico. This activity will certainly assist in reducing the staggering high rates of unemployment that have prevailed in the Island for the last 7 years. Hopefully, it will also aid to alleviate, to some extent, the rising crime levels; at least that portion of the criminal activity that is directly or indirectly triggered by the unemployment situation.

As you are probably aware, Puerto Rico is dependent on maritime transportation for approximately 99 percent of its external trade, of which about 80–85 percent is between Puerto Rico and the U.S. mainland. However, Puerto Rico is restricted to shipping in U.S. flagships in its trade with the stateside. This limitation results in higher shipping costs for Puerto Rico's industry. Though H.R. 89 does not deal with cargo transportation, it is a step in the right direction, in the direction of complete autonomy for the Island in maritime affairs. For these reasons, the Puerto Rican Mayors Association urges the Committee to approve H.R. 89.

We reiterate our appreciation for the sincere interest the chairman has taken in Puerto Rico. Thank you.

Cordially,

JOSE A. ORTIZ-DALIOT.

STATEMENT OF CRUZ IRIZARRY, PRESIDENT, CHAMBER OF COMMERCE OF PUERTO RICO

H.R. 89 of 1984 would authorize foreign-flag ships to transport passengers between Puerto Rico and other United States ports while such service is unavailable in U.S.-flag ships and under other specified conditions.

The Chamber of Commerce of Puerto Rico endorses H.R. 89. Our institution also supports the cabotage laws of the United States, and considers that they are essential for the existence and survival of a strong and healthy, national, merchant-marine fleet, and for the security of the Nation.

Our institution would oppose any real threat to the existence of the fleet and to national security. We also consider that H.R. 89 does not constitute such a threat.

Nothing can be a threat to a ghost, to a service that does not exist. Neither can H.R. 89 be a threat to the possible, future birth of a U.S.-flag passenger service if, as soon as such service is born, H.R. 89 expires.

H.R. 89 cannot be a threat to U.S.-flag service in the transportation of cargo either. Cargo transportation is not at all involved in the bill, neither explicitly nor implicitly. Cargo transportation has nothing to do with H.R. 89. If it did, neither Mr. Mario Biaggi, the New York Representative; nor Mr. Corrada, the Puerto Rico Resident Commissioner and Member of the House; nor our institution, nor any of the sponsors of the bill would support it.

Puerto Rico has a very serious problem with maritime transportation of both passengers and cargo between the Island and U.S. ports—make no mistake about it. However, the elimination or erosion of the cabotage laws is not a proper, fair, practical or feasible remedy. That is not an issue with respect to H.R. 89.

The real issue is: Who should pay the price of the United States having and conserving a healthy merchant marine for the security of the Nation? How should the payment of the price be shared by all who benefit from it?

The Chamber of Commerce of Puerto Rico submits that the whole nation should support the burden, not excluding the offshore domestic areas of the United States. The Chamber of Commerce of Puerto Rico also submits that the whole nation has not been fairly sharing the burden with the offshore domestic areas under the cabotage laws, and that the last-mentioned areas are supporting an extremely high and unfair share of the burden. It should not be the maritime workers through low wages; nor the U.S. carriers and ship builders, through unreasonably low operating and ship building costs and profits; nor the highly distressed Puerto Rican economy, through extremely costly shipments to and from the United States who should bear most of the burden.

How is the total burden presently shared? It has been the policy of the U.S. Government that the U.S. economy should not pay what would be the extremely high cost of U.S. merchant ships carrying any significant part of both passenger and cargo transportation between the United States and foreign countries. Thus, less than 5 percent of such transportation is performed by U.S.-flag vessels.

It has also been the policy of the United States that the total cost of coastwise and intercoastal water transportation be borne by the trades involved, with no federal operating or shipbuilding subsidies; and that such trades be protected from foreign-vessel competition through the cabotage laws.

What does that mean in respect to passenger and cargo transportation between cities or points in continental United States? It has meant that practically none of it is maritime, because it cannot compete with alternative transportation means, such as bus, truck, railroad, private automobiles, pipelines and inland waterways. Thus, the U.S. taxpayer has not had to pay an unduly high cost for such transportation.

What about transportation between United States and Puerto Rican ports? Passenger service does not exist because it is regarded uneconomical vis-a-vis airline service. Foreign cruise ships are prevented from bringing tourists to the Island from U.S. embarkation points, except for 24-hour stops under highly restrictive conditions.

Cargo transportation by airline is not competitive with maritime cargo transport, except for a few high-value, low-weight articles. Thus, in sharp contrast with cargo transportation between U.S. mainland ports, there are no practical alternatives to maritime cargo transportation between U.S. mainland ports and Puerto Rico. Being such transportation protected from foreign flag competition, and with only 3 shipping lines carrying almost all the non-bulk-cargo in trailerships and containerships, the tariffs are relatively and understandably high, given the highly non-competitive nature of the service. For Puerto Rico that means higher costs of incoming consumer goods and industrial materials as well as of outgoing industrial products. This jeopardizes the competitive position of local industries in the U.S. markets and results in a higher cost of living for the Puerto Rican consumer, who earns only about one-fourth of the income per capita of his U.S.-mainland counterpart.

Under the circumstances, it is possible for an excellent merchant marine fleet to provide the service between United States and Puerto Rican ports, including containerships, trailerships, bulk-cargo ships, and break-bulk ships. This enhances the national security objective, but places an unfairly high, unbearable burden on the relatively poor Puerto Rican economy.

The issue must be squarely faced by the U.S. Congress. It is important for the national security of the whole nation and for the feasibility of the Puerto Rico economy. Puerto Rico would be most willing and happy to pay its fair share of the price

of supporting our national merchant marine, but it is unable to carry its present, unfairly heavy burden, and extremely unhappy about it.

STATEMENT OF FRANK DROZAK, PRESIDENT, SEAFARERS INTERNATIONAL UNION

Mr. Chairman and Members of the subcommittee. My name is Frank Drozak and I am President of the Seafarers International Union. I am very pleased to have this opportunity to present our views on H.R. 89. This bill would allow foreign-flag passenger vessels to operate between ports in Puerto Rico and other ports on the mainland United States either directly or by way of foreign ports, unless the Secretary of Transportation determines that U.S.-flag passenger service is being offered. As you know, the bill has already passed the House of Representatives and the SIU opposed the bill during its consideration.

The Seafarers International Union has always been and continues to be a strong supporters of all U.S.-built, U.S.-flagged, U.S.-crewed, domestic cabotage laws. The reality of the industry occasionally does require that this basic principle be waived. However, in the legislation considered today, there are no advantages to be realized by granting the exception requested.

In determining what limited waivers should be allowed on a case-by-case basis, four essential questions must be asked.

One, will the waiver harm existing operators? Two, will it discourage or encourage growth of a U.S.-flag domestic fleet? Three, will it offer benefits to the U.S. merchant marine? Four, will it augment U.S. defense requirements.

As we all know, there are presently no existing U.S.-flag passenger vessel operations between the mainland and Puerto Rico. One might argue, therefore, that no U.S. operations will be harmed. This argument, however, fails to view this segment of the passenger industry as a part of the whole trade.

As we are all aware, interest in developing a viable U.S.-flag domestic passenger trade has recently increased. The most viable operation being contemplated at this time evisions coastwise passenger service in luxury cruise liners along the East and Gulf coasts. Passage of H.R. 89 would seriously undermine development in the lower East Coast and Gulf trades. Foreign-flag vessels operating between Puerto Rico and these same mainland ports would drain off much of this potential market. U.S. operators intent on establishing a successful domestic market would be faced with serious competitive obstacles during the crucial start-up phase of their operations.

As a corollary, the second criteria addressing growth in a U.S.-flag passenger fleet would be completely unsatisfied. The competitive disadvantages to be overcome by U.S. vessels operating either in the Puerto Rico trade or the East and Gulf coast trade would virtually preclude any potential U.S. operator from entering these markets. There are no provisions in the bill safeguarding U.S. coastwise operators from the market drain of nearby foreign competition.

The bill, by its very terms, closes the Puerto Rico to mainland market to future U.S. operations. The nine month phase-out period for foreign ships in the bill would require some period of head-to-head competition with those ships. The first year of a new operation is always the most precarious. Short term losses during market development are to be expected, but H.R. 89 compounds this risk so greatly that viable U.S.-flag service would never be achieved.

In response to the third criteria outlined, it can hardly be argued that opening this market to wholesale foreign-flag service will benefit the U.S. merchant marine. Nor can any potential increase in revenues for Puerto Rico outweigh the lasting damage done to the renascent U.S.-flag passenger fleet. The recent interest in developing a U.S. passenger trade will eventually benefit Puerto Rico, if potential U.S. operations are only given a chance. U.S.-flag service between the mainland and Puerto Rico would almost certainly be the next step once East and Gulf Coast markets are developed. But enactment of H.R. 89 will eliminate that potential once and for all. And in the process, all interest in developing a U.S.-flag coastwise passenger fleet may also die.

The fourth criteria for a case-by-case waiver of the domestic passenger laws, of course, will never be met by enactment of this bill. No possible defense benefit can be read into this waiver. Moreover, any potential for addition of militarily essential U.S. passenger vessels to augment out national security needs will most probably be lost.

In summary, passage of H.R. 89 will not meet even one of the essential criteria needed to support the waiver of the basic principles underlying our domestic cabotage laws. The timing of this legislation could not be worse. For the first time in several decades we have the opportunity to encourage development of a viable, military-useful, domestic passenger fleet with all the concomitant benefits to the U.S.

economy. The enactment of this legislation could single-handedly destroy this potential. The Seafarers International Union strongly opposes this legislation and urges the Subcommittee to oppose further action on H.R. 89.

Thank you.

STATEMENT OF THE PUERTO RICO PORTS AUTHORITY

We are very pleased to refer to H.R. 89 which will allow the transportation of passengers between Puerto Rico and other United States ports on foreign-flag vessels whenever there are no U.S.-flag vessels available to render such services.

This bill is of vital importance to the economy of Puerto Rico. Its enactment into law, which the Ports Authority urges, will provide Puerto Rico with a means to fill a need which the Island has been suffering for three decades.

Before going into the specifics of the proposed legislation, we deem it advisable to portray a general picture of Puerto Rico.

GEOGRAPHICAL AND HISTORICAL FRAMEWORK

Located 885 miles southeast of Florida, Puerto Rico is the easternmost island of the Greater Antilles in the Caribbean. The Island is roughly 3,500 square miles in size, that is, 100 miles long by 35 miles wide, and harbors some 3.2 million United States citizens, with its capital city San Juan housing the largest number. San Juan is also the hub of economic activity of the island, and holds among its many facilities the most important installations serving the needs for external transportation, among which we can mention the Puerto Rico International Airport and the San Juan Port Area.

Its geographical condition forces Puerto Rico to the exclusive use of ocean crafts and aircraft as the sole means of transportation between other states, territories or foreign countries. This is remarkably different to the case of Mainland states where, in addition to the aforementioned means of transportation, ground vehicles means, railroads and channel transportation are available.

The island of Puerto Rico was discovered by Christopher Columbus on November 19, 1493 on his second voyage to the Americas. Since its discovery the Island remained under the Spanish rule until 1898. On this date Puerto Rico was ceded to the United States as a result of the Spanish American War. The U.S. Congress provided a civil government through the Foraker Act of 1900 and Puerto Ricans were granted U.S. citizenship in 1917 by virtue of the Jones Act.

Public Law 600 approved in 1950 established a relationship in the nature of a compact between the United States and Puerto Rico. A local constitution was ratified in 1952 which established the present Commonwealth status within the United States of America.

DEVELOPMENT OF PUERTO RICO AS A COMMONWEALTH WITHIN THE UNITED STATES

The development of Puerto Rico can be traced back to a single crop agricultural based economy—mainly sugar—when Puerto Rico shifted to U.S. sovereignty. By that time, its greatest stumbling blocks were the total lack of natural resources and poverty.

The population of Puerto Rico was approximately one million in 1900 and by 1940 it had grown to 2.2 millions. The average rate of employment in 1940 was 512,000; in 1950, 596,000; and at present 719,000. Per capita income increased from approximately $266 in 1940 to $300 in 1950 and to $3,247 in 1983. Despite the economic growth, the present unemployment rate is around 23.4 percent. This has been a traditional basic problem with which the government of Puerto Rico is firmly committed to tackle and minimize.

Being the people of Puerto Rico U.S. citizens by birth, they are entitled to all privileges and rights granted under the U.S. Constitution. Also, we are under obligation to serve the country as need be. As a matter of fact, over 200,000 Puerto Ricans have served in the U.S. Armed Forces since the First World War and many have died or were wounded. There are about 2 million Puerto Ricans now residing all over the United States, who participate in all positive aspects of life in the Mainland.

PREDOMINANT POSITION OF CARGO TRADE WITH THE UNITED STATES

The balance of trade for Puerto Rico experienced a deficit of $609 million by 1950. However, a change for the better occurred in 1983 when the Island experienced a favorable balance of $14.6 million. Imports for 1982 amounted to $8,507 billion and

exports $8,521 billion. Of total imports, $5,209 billion or 61 percent originated in the United States Mainland which by world-wide standards makes the Island the sixth major purchaser of U.S. Mainland products.

Traditionally, the trade between Puerto Rico and the United States has been evenly distributed among the different regions of the United States.

The following computation presents the statistical total comparative Puerto Rico dollar trade figures from the 1950's through the 1970's and fiscal years 1981 and 1982 broken down into mainland, Virgin Islands, and foreign:

EXTERNAL TRADE STATISTICS

[In millions of dollars]

Fiscal year	Total traffic	U.S. mainland	Virgin Islands	Foreign traffic	Percent of total	
					U.S. mainland	Others
1950	579	528	NA[1]	51	91.2	8.8
1960	1,537	1,355	13	169	88.2	11.8
1970	4,285	3,498	101	686	81.6	18.4
1980	15,592	11,020	256	4,315	70.7	29.3
1981	17,371	12,483	291	4,597	71.9	28.1
1982	17,286	12,840	342	4,104	74.3	25.7
1983	17,028	12,326	230	4,472	72.4	27.6

[1] Information not available.

In tonnage terms the U.S. mainland ports which show the greatest trade with the United States are those of the East Coast with 80 percent of the total followed by Gulf ports with roughly 20 percent of the total. The East Coast total is shared by the North Atlantic ports with 39 percent of the trade, and the South Atlantic ports 41 percent.

PUERTO RICO PASSENGER TRADE

Passenger movement between United States and Puerto Rico is presently limited to that provided by air transportation as there is no water transportation passenger service available. There is no U.S.-flag ship rendering passenger transportation service between United States and Puerto Rico, and there has been none since March 1953, and we have no knowledge of any ocean transportation related interests willing to render such service by American flag ships.

There are a good number of foreign-flag vessels which regularly stop at San Juan, Puerto Rico and which start or end their cruises between foreign ports at San Juan. In their services with foreign countries they may legally carry passengers (46 U.S.C. 289) but not in the domestic trips. As a result, any United States citizen or person wishing to travel for any purpose between the mainland and the island is compelled to travel by airplane. If by ship, he or she must journey from or to a foreign port and/or from there must board another ship to Puerto Rico or the mainland. Furthermore, according to law and customs regulations, foreign-flag cruise ships can not stay in an American port for more than 24 hours.

In 1950, latest year on which data is available and when passenger ship service using American-flag ships was rendered between New York and Puerto Rico by Bull Insular Line, 7,000 passengers were transported. Considering the rate of growth of the economy since that date and the volume of passengers which may be moved in a passenger ship, we estimate that under present circumstances, passenger movement by ship could well be 12 to 15 times higher than that of 1950. That is, in the first year of operation under the subject bill 84,000 to 105,000 passengers would avail themselves of the service. The benefit to the Puerto Rican economy, now badly hurt by the world recessionary conditions would be of considerable magnitude. Considering that every tourist visiting the Island spends an average of $452 per visit, an imput of $38 million to $47.5 million initially can be estimated.

For 1983 the expenditures by visitors to Puerto Rico amounted to $690.9 million which represented 10 percent of Puerto Rico gross product (1973 Price Index).

The following table presents the number of cruise ships and passengers visiting the Port of San Juan from 1970 through 1983. This trade increased from 301 ships and 136,300 passengers in 1970 to 553 ships and 436,008 passengers in 1984. While the peak year in this trade for ships was 1974 with 739 vessels, the record high in number of passengers occurred in 1981, with 531,222 travellers. During the last 2 years due to the world-wide economic crisis and its impact upon this trade, the

number of ships and passengers has decreased as similarly experienced in other areas.

CRUISE SHIP VISITORS TO PUERTO RICO

[Fiscal years 1970 through 1983]

Year	Number of—	
	Cruise ships	Visitors
1969–70	301	136,604
1970–71	323	163,771
1971–72	534	261,159
1972–73	734	344,341
1973–74	739	411,086
1974–75	698	415,627
1975–76	640	412,712
1976–77	685	445,083
1977–78	654	453,280
1978–79	681	484,162
1979–80	700	501,124
1980–81	713	531,222
1981–82	603	444,148
1982–83	545	411,150
1983–84	553	436,008

Source: Tourism Co. of Puerto Rico.

PASSENGER TRANSPORTATION FACILITIES IN PUERTO RICO

The Puerto Rico Authority is the Commonwealth's agency entrusted with providing facilites for the passenger trade of Puerto Rico.

The Puerto Rico Ports Authority, a public corporation and instrumentality of the Commonwealth of Puerto Rico, was created for the purpose of developing and operating any and all types of air and maritime transportation facilities, and to promote an excellence of service to and from Puerto Rico in the most economical way to promote the general welfare and commerce of the Island.

The Authority is empowered to fix, charge, and collect rates and other charges to cover its expenses in the conservation, development, improvement, repair, maintenance, and operation of its facilities. The fixing of these charges is based on a rate schedule which is periodically revised, and which is also based on the break-even needs of the agency, including debt service payment requirements related to its financial obligation in connection to various bond issues.

The Ports Authority owns and operates the seaport facilities at seven of the eight active ports on the Island, of which the ports of San Juan and Mayaguez are commerce-oriented, and the other five: Guayanilla, Guayama, Yabucoa, Guánica and Arecibo, are basically designed to serving industrial port activities. The second most important port in Puerto Rico is locate at Ponce, in the south coast, and is owned and operated by the Municipality.

Of the above, by far, the most important and holding a preeminent position in the infrastructure that supports our economic and commercial development is the Port of San Juan.

San Juan Bay is almost completely landlocked about three miles long and varying in width from .6 to 1.3 miles. It is the only harbor in the north coast of Puerto Rico which affords protection against all kinds of weather.

Facilities of the Port of San Juan consists of 32 piers with 51 berths that are used for general cargo and container ships. Besides, insofar as terminal piers for passenger and cruise ships is concerned, the port holds berthing facilities for seven deep-draft ships handling passengers and baggage, and has experienced up to thirteen tourist or curise ships at a time. You will never see at San Juan a tourist ship remaining at anchor as it coincides with other tourist ships visiting ports in the Caribbean.

We can describe the San Juan Port Area installations as basically consisting of some 22,700 linear feet of berthing space; 1,100,000 square feet of transit shed area; 1,500,000 square feet of open storage area, and 105 acres of marshalling yards. These latter facilities are located mostly at the Puerto Nuevo port zone in the south and at

Isla Grande in the center. Within the port boundary, there is also the zone known as the Sabana Industrial Area, where the rice, flour, and feedstuff mills are located.

Outstanding statistics regarding our activities show that for 1982 the Port of San Juan ranked 8th among world ports and second among United States ports in number of containers handled, with the Port of New York taking the first place.

During the last two years, the Ports Authority has undertaken a vast program of improvements at the Port of San Juan. The construction of the port promenade from Pier 1 to Pier 6 at a cost of approximately $400,000, is only the first phase of this improvement program. This promenade meets the functional, passive recreation and aesthetic requirements of the area.

The demolition of Piers 6 and 7, at a cost of $130,000, has already been completed and the construction of a new cruise ship terminal has already been started for completion by mid-1984. These facilities that will extend the port promenade from Pier 6 to Pier 7 will include a sterile passenger corridor, two Customs inspection stations and areas for concessions and other services.

A structural fendering system will also be installed to protect the berthing facilities.

This project, which is being undertaken at an approximate cost of $3,000,000, will provide facilities capable of handling simultaneously two additional cruise ships.

With respect to the aviation field, the Puerto Rico Ports Authority owns and operates eleven active airports which include: the Puerto Rico International Airport and Ponce Airport, and the regional airports at Mayaguez, Ramey at Aguadilla, Arecibo, Isla Grande, Fajardo, Vieques, Culebra, Humacao, and Patillas.

Looking into the future, the Puerto Rico Ports Authority contracted and recently finished Master Planning Studies which are useful in providing the long range perspective to guide its ongoing development program.

EFFECT OF THE PASSAGE OF H.R. 89

With the passage of H.R. 89 by Congress the island and economy of Puerto Rico, as already indicated elsewhere in this statement, will substantially benefit the tourism industry of Puerto Rico. Undoubtedly, the establishment of passenger transportation services in vessels presently not allowed to engage in the coastwise trade between ports in Puerto Rico and other ports in the United States, directly or by way of a foreign port when there are no U.S.-flag vessels available will create more port jobs and revenues, not only in Puerto Rico but in Mainland ports as well. This bill is not intended to affect the American Merchant Marine or American flag passenger vessels, inasmuch as there has existed none in this trade for a long time, thirty years now, but rather will provide for job opportunities for those devoted to supporting activities such as stevedores, ship chandlers, maintenance and repair, and other similar activities.

The exemption provided by the bill would actually become ineffective when the Secretary of Transportation determines that U.S.-flag service is available. An adequate notification of 270 days will be served upon the exempted operator who may be rendering the service. In addition, if passed, the legislation will not apply to the transportation of cargo. It will actually create a basis and an incentive toward American flag vessels to provide passenger services between Puerto Rico and United States Mainland ports.

Furthermore, there are precedents set on this respect which support this proposed legislation. For example, Public Law No. 87-877 of October 20, 1962, extended for several years, provided for the Secretary of Commerce to grant permits to United States Mainland lumber companies to contract for the transportation of lumber to Puerto Rico using foreign-flag ships whenever there were no American-flag vessels matching the price of the foreign flag ships. Under this law the Secretary of Commerce granted permits to Georgia Pacific Corporation, Oregon Lumber Co., Simpson Lumber Co., Dart Russell, Inc., Seaboard Lumber Co., and the Warsaw Lumber and Trading Co. By virtue of Public Law 85-103 of July 1, 1957, subsequently extended, Canadian vessels have been allowed to transport passengers and merchandise between ports in Alaska and between Alaska and other points in the United States outside Alaska either directly or via foreign port, or for any part of the transportation.

A particular impact consideration in analyzing H.R. 89 is that of the role of Puerto Rico within the Caribbean Basin Initiative, as well as the island's direct relationship and economic condition in comparison to other points in the Caribbean. These other points in the Caribbean, including the United States Virgin Islands, enjoy the advantage of foreign-flag passenger vessel transportation without any restriction whenever volume warrants. If such passenger vessels are allowed to render service between United States Mainland ports and Puerto Rico, as provided in H.R.

89, the small countries in the Caribbean which naturally lack enough passenger volume with the United States Mainland will also benefit because of the short distance between said countries and the Port of San Juan, Puerto Rico where passengers travelling from or to such points may transfer and board or leave a ship.

Summing up, our feeling is that approval of H.R. 89 will benefit not only the Puerto Rican economy but also that of the ports in the Continental United States that would be served by this trade without in no way affecting any rights or privileges enjoyed by private, government or labor U.S. interests.

We, therefore, respectfuly request approval of H.R. 89.